US Embassy Jakarta
ECONOMIC SECTION

INDONESIA:
ENERGY HIGHLIGHTS APRIL 2006

Summary

- On April 21, state electricity company PLN extended the deadline to procure tender documents for six Independent Power Projects (IPPs), reportedly due to overwhelming investor interest.
- PLN also reportedly signed a Memorandum of Understanding (MOU) on April 23 with a consortium of Chinese investors to develop power plants capable of producing 8,000 megawatts.
- Power plants in Java struggled to stay on-line during the month of April in the face of fuel supply shortages.
- On April 11, Pertamina deferred plans to increase liquid petroleum gas (LPG) prices.
- Pertamina and South Korea's SK Corp signed a joint venture agreement on April 23 to build a Group-III base oil plant.
- The Government of Indonesia (GOI) decided to halt fertilizer exports and lift import tariffs on April 20 in response to shortages.
- On April 26, ExxonMobil announced it had divested its 50 percent share in Block A (onshore Aceh) to a consortium of Indonesian, British, and Japanese firms.
- Seattle based MCubed Petroleum also announced its acquisition of the Halmahera and Rembang Offshore Production Sharing Contracts (PSCs) on April 20.

Note: This report uses an exchange rate of Rp 8,775/USD

Investors Keen to Develop Power Projects

On April 21, state electricity company PLN extended the deadline until May 2 to procure tender documents for six Independent Power Projects (IPP), reportedly due to overwhelming investor interest. PLN reported that over 100 domestic and international companies purchased bid documents. Potential international bidders reportedly included Japanese companies Marubeni, Sumitomo and Mitsubishi, Malaysia's YTL, India's Essar Group and Babcock and Wilcox from the U.S. The Indonesian firm Bakrie Power and PLN subsidiary PT Indonesia Power also reportedly expressed interest. PLN said it intends to complete the tender process in June 2006 with the goal of starting power generation by 2010. The six projects will produce 2,200 megawatts (MW) of power and require an estimated investment of USD 2.27 billion. Due to steadily increasing demand, PLN announced in 2005 a "crash program" to accelerate development of approximately 10,000 MW power within the next 5 years.

PLN Signs MOU with Chinese Investors

On April 23, PLN reportedly signed a MOU with a Chinese consortium consisting of China National Technology Import Export Corporation (CNTIEC), Harbin Power Company, Dongfang Electricity and Shanghai Electricity Corporation to develop at least 17 coal-fired electricity plants with a combined capacity of 8,000 MW at an estimated value of USD 5.6 billion. The MOU came on the heels of Vice President Jusuf Kalla's four-day visit to China seeking investors for infrastructure projects. The Bank of China and other unnamed Chinese banks will reportedly finance the projects. The parties agreed that construction of each plant will finish within 36 months of groundbreaking. According to Minister of State-Owned Enterprises Sugiharto, the GOI will require each project to go through a standard tendering process to ensure that PLN receives the best value for each plant.

Power Plants Struggles with Fuel Supply

Fuel shortages forced the 840 MW Muara Tawar power plant in West Java to shut its generating units for several days during April. The problems began on April 6 when the plant was forced to shut half of its generating units only to shut down completely the following day. According to PLN, the shutdown created only minor blackouts as the company augmented the deficit by increasing supply from its Cilacap plant. After receiving fuel from state oil and gas company Pertamina, the combined cycle power plant resumed normal operation on April 11 for 2 days. However, the plant shut down a second time on April 13 for a four-day outage and again for a full day on April 20. Although not as severe, fuel shortages also hit the Grisik power plant in East Java forcing it to shut down one of its generating units. As a consequence, during April the Java-Bali grid operated on a razor-thin reserve margin of 2.5 percent of the 18,683 MW installed capacity.

Pertamina Postpones LPG Price Hike Plan

On April 11, state oil and gas company Pertamina announced it had deferred its plan to raise liquid petroleum gas (LPG) prices effective May 1. Pertamina had originally announced the price hike plan in January and it generated widespread objections from consumers. Initially, the company had announced its aim to increase gradually LPG prices every month starting in May until they reached around Rp 7,000 (USD 80 cents) per kilogram. Pertamina claimed that it suffers a loss of Rp 1.8 billion (USD 213,000) annually due to selling LPG below its market price. Pertamina last increased LPG prices in December 2004. Proposed monthly price increases for household and industrial customer were Rp 500 (USD 6 cents) and Rp 1,250 (USD 13 cents) per kilogram respectively. Current LPG consumption is around 3,500 tons per day, over 80 percent of which Pertamina supplies from its own refinery. The company said it still intends to begin raising the price of LPG sometime in the second half of 2006.

Pertamina and SK Corp Signs Base Oil Joint Venture

On April 23, Pertamina and South Korea's SK Corp signed a joint venture agreement to build a Group-III base oil plant at Pertamina's refinery in Dumai, Central Sumatra. (Group-III base oils have a high viscosity index and are commonly used as basic lubricant material.) The plant is slated to have a capacity of 7,250 barrels per day and will reportedly have a construction cost of USD 175 million, of which SK Corp will pay USD 113.75 million entitling it to a 65 percent stake in the venture. Construction is due to begin later this year with completion projected by mid-2008. The two companies will work together to market the products with SK handling international sales and Pertamina concentrating on domestic customers. SK Corp is one of South Korea's leading energy companies and is the fourth largest refiner in Asia. During the same ceremony, the two companies also signed an MOU to cooperate on a variety of other oil and gas projects.

Government Puts Ban on Fertilizer Export

On April 20, President Susilo Bambang Yudhoyono decided to halt fertilizer exports and eliminate import tariffs on fertilizer products. The President took the decision following a limited cabinet meeting held in response to reports of scarcity of urea fertilizer in Java and North Sumatra. In 2005, Indonesia exported around 12.5 percent of its urea fertilizers production or 733,000 tons. Urea fertilizer is mainly used to enhance rice production, Indonesia's main food staple. Gas supply uncertainties and rising production costs currently burden Indonesian fertilizer producers. Earlier in 2006, the Ministry of Energy and Mineral Resources bailed out several state fertilizer producers by negotiating short-term gas supply arrangements. The GOI has not decided whether to allow price increases or give additional subsidies (or both) to further sustain the industry.

ExxonMobil Divests Block A Interest

On April 26, ExxonMobil announced it had sold Mobil Block A Limited--a holding subsidiary for its 50 percent non-operating interest in the Block A Production Sharing Contract (PSC) in Aceh--to a consortium including Indonesia's Medco Energi, UK's Premier Oil and Japan's Japex. The three companies have an equal share in the consortium and will each be entitled to a 16.67 percent participating interest in the PSC, pending GOI approval.Block A, located onshore, is estimated to contain gas reserves of 1.5 trillion cubic feet (TCF), which is equivalent to approximately 270 million barrels of oil. The reserves have a high carbon dioxide content, however, which significantly raises development costs. ConocoPhillips is the block operator and owns the other 50 percent stake. Upstream regulatory body BP Migas has been pushing ConocoPhillips to step up development of Block A gas reserves or divest its interest. Fertilizer plants in Aceh have curtailed their production due to reduced fuel supply from the nearby but declining Arun gas field. BP Migas has reportedly also considered improving the contractor split in
the block from 35 to 48 percent.

Acquisition Updates

On April 20, Seattle-based MCube Petroleum completed its acquisition of two Indonesian assets, Halmahera Petroleum Ltd and Orna International Ltd. The two companies own the Halmahera PSC offshore Maluku and the Rembang PSC offshore East Java. The acquisitions give MCube the right to operate the two blocks until 2033 and provide them with access to potential gas reserves of 5.3 TCF and 2.1 million barrels of oil. The company's other interests in Indonesia include the Batumandi, Basilam and Diski technical assistant contracts in North Sumatra.

Other significant acquisitions during the month include:

- The UK's Salamander Energy completed its acquisition of 100 percent of the Bontang Exploration Company (Bonec) on April 5 at a reported cost of USD 125 million. Bonec has an 80 percent stake in the Bontang PSC, East Kalimantan.

- UK-based Churchill Mining PLC acquired the Sendawar Coal Project, East Kalimantan from Indonesia Coal Development at a reported cost of USD 5 million.